



July 18, 2008

TO: City Auditors, Town and Special Purpose District Accountants

This letter sets forth the requirements for certification of General Fund free cash, certification of enterprise fund retained earnings, for submission of Schedule A, submission of Snow and Ice annual report, and for certain other related matters.

Certification of Free Cash and Retained Earnings

M.G.L. Chapter 59, §23 clearly contemplates only one certification, based on the balance sheet submitted by the City Auditor, Town or District Accountant, or supported by audited financial statements if required by the Director. Requests for a revision, apart from a free cash update, are unlikely to be approved. Always submit the balance sheet allowing sufficient time for Bureau review and certification as well as for local action. Appropriation is allowed after Bureau certification; appropriation prior to certification will be considered defective requiring additional local action.

All procedures necessary to insure that the accounting records are properly closed should be completed. Pre-closing trial balances will not be accepted. Certification of free cash and retained earnings requires completion and submission of the following:

- Combined Balance Sheet and Combining Balance Sheet for each fund type and individual fund balances to determine if any funds are in deficit;
- [FY2008 Year End Checklist](#);
- Detailed analysis of undesignated fund balance/surplus revenue;
- [Cash Reconciliation Form](#);
- [Treasurer's Quarterly Cash Report](#) as of June 30, 2008;
- [Schedule of Outstanding Receivables](#) as of June 30, 2008;
- [Statement of Indebtedness](#) as of June 30, 2008;
- Other information requested by the Bureau's field representative to more clearly understand the community's financial status.

The Bureau will reduce the free cash calculation for variances reported in Cash and/or in Outstanding Receivables and may require that certain amounts be raised in the next tax levy.

The Bureau will certify retained earnings for all enterprise funds.

Deficits not permitted by a specific provision of law or legal deficits not provided for on the tax rate (if tax rate certification precedes free cash certification) will be deducted from free cash.

A Statement of Revenues and Expenditures – Budget to Actual may be submitted to better support operating results.

A commitment of FY2009 quarterly real and personal property taxes made prior to July 1, 2008 should not be recorded until July 1, 2008, should not appear as a receivable on the Balance Sheet as of June 30, 2008 and should not have any cash received toward that commitment recorded as Revenue, but rather as FY2009 Deferred Revenue. Recording the commitment as of July 1, 2008 rather than as of the actual date committed does not affect its validity.

For jurisdictions in which the Director of Accounts requires audited financial statements prior to certification of free cash, the Bureau will not certify an amount if the independent auditor's opinion is adverse or if the opinion is disclaimed.

Other Matters Related to the Certification of Free Cash and Retained Earnings

1. Late Payments

Jurisdictions that received FY2008 state aid payments after June 30, 2008 may request that their receipt be included in the certification if the payments are received by September 30, 2008.

Reimbursements received from July 1, 2008 through September 30, 2008 for expenditures made in FY2008 that resulted in deficit fund balances as of June 30, 2008 may be requested to be considered toward the deficit.

Other state reimbursements (Massachusetts School Building Authority Progress Payments, payments from MWPAT etc.) to reimburse expenditures made through June 30, 2008 may be included in the certification provided the community either documents receipt of the funds prior to September 30, 2008 or can document that a request for reimbursement was filed with the appropriate agency by September 30, 2008 and the Bureau can confirm that the payment will be made.

2. Chapter 90 Bond Issue Apportionments

As in prior years, communities are allowed to appropriate these apportionments as available funds. Spending from this appropriation could have a negative impact on free cash if expenditures are not reimbursed by June 30, 2008 unless:

- Borrowing occurs by June 30, 2008 in anticipation of receiving the reimbursement;
- Reimbursement received by September 30, 2008 can be documented;
- A documented request for reimbursement was filed with MassHighway by September 30, 2008 and the Bureau can confirm that the payment will be made.

3. Deficit Fund Balances

Year-end deficit fund balances resulting from anticipated other governmental reimbursements or borrowing authorizations are deducted from free cash/excess & deficiency unless funds are borrowed (e.g. BANs, GANS, SANs) by June 30, 2008 that equaled or exceeded the amount of the deficit. Capital projects are analyzed on an individual, not aggregate basis.

Enterprise fund year-end deficit fund balances must be provided for on the FY2009 Tax Rate Recap and reported on Schedule A-2.

4. Self-Insurance Plans for Employee Health Insurance

Self-insurance plans per M.G.L. Chapter 32B, §3A cannot be operated in the General Fund. That section requires creation of a Claims Trust Fund, an internal service fund accounted for in accordance with generally accepted accounting principles. Incurred but not reported or “IBNR” claims must be accrued and reported on the balance sheet.

Per M.G.L. Chapter 32B, §3A, a self-insured health claims trust fund including IBNR must be funded by a sufficient appropriation. For all communities:

- no further amortization per Chapter 61 of the Acts of 2005 is necessary if the June 30, 2008 fund balance is positive;
- any June 30, 2008 fund balance deficit must be provided for in the FY2009 Tax Rate Recap.

For June 30, 2008 free cash certification purposes, General Fund free cash will be reduced for a deficit fund balance.

5. Massachusetts School Building Authority (MSBA) Payments

Review [IGR 08-102](#) for instructions on the receipt of payments and how to properly reserve/apply these payments whether or not a debt exclusion has already been voted. Also, review the [FY2009 Estimated Receipts Worksheet](#). If you have any further questions in this matter, contact your Bureau of Accounts field representative.

6. Community Preservation Fund (CPA)

Fund balances reported on form [CP-2](#) must match fund balances reported on the June 30, 2008 balance sheet. This form has been revised for FY2008 reporting purposes. Page 1 of the form will continue to report all revenues and expenditures of the fund; Page 2 will now only report total fund balances.

The due date of the form is October 31, 2008 and is available on Gateway under Misc Forms.

Please be reminded that appropriations from CPA fund balances made prior to July 1, 2008 are booked after that meeting becomes official and are immediately expendable. Appropriations in which FY2009 CPA estimated revenues are the source made prior to July 1, 2008 are neither booked nor expendable until July 1, 2008.

7. State Special Education Reimbursement Fund (“Circuit Breaker”)

The Department of Education (DOE) amended its regulations on June 27, 2006 regarding carry forward of reimbursement. As a result, the fund balance as of June 30, 2008 can be no greater than DOE’s FY2008 reimbursement, not including extraordinary assistance. Any excess fund balance must close to the General Fund as of June 30, 2008. See DOE’s FY2008 reimbursements at <http://finance1.doe.mass.edu/seduction/>.

Any FY2008 deficit in the State Special Education Reimbursement Fund must be charged to the FY2009 school budget and will have no effect on June 30, 2008 free cash and will not have to be raised on the FY2009 city or town Tax Rate or Pro Forma Recap provided that proof of the amount being raised in the FY2009 school budget is provided and approved by the Bureau of Accounts.

8. “On Behalf Payments”

Please furnish “on behalf payments” from the Massachusetts Teachers Retirement System (MTRS) to your Certified Public Accounting firm promptly as inclusion of the information in the audited statements is required by GASB statement 24. The Bureau understands that these payments will be available on the MTRS’ website at <http://www.mass.gov/mtrs/4about/4gasb.htm> in late July.

9. DOR “Gateway” Project

The Division of Local Services (DLS) “Gateway” is an online process for submission of tax rate, assessment, Schedule A and other municipal financial data for formal review by certain Bureaus within the Division. Local users will be allowed to sign on, check errors, run analytical reports, digitally sign, formally submit and check the status of this data in real time.

For FY2009, all cities, towns and districts are encouraged to submit their Tax Rate Recapitulation, Pro Forma Recapitulation and Schedule A to the Division of Local Services via Gateway. If you have any questions on this project, please contact Dave Davies at 617-626-2383. If you would like to request a one and one-half hour tutorial on Gateway with Division of Local Services staff E-mail your request to dlsitgroup@dor.state.ma.us or call 617-626-2350.

10. IGR 08-101 and Enterprise Funds

The Bureau of Accounts issued [IGR 08-101](#) in April of 2008 on the use of an enterprise fund under M.G.L. Chapter 44, § 53F½. The guideline prescribes uniform accounting standards for enterprise fund revenues and expenses and sets forth policies that apply to the review of enterprise budgets for tax rate setting purposes.

These standards and policies are effective as of June 30, 2008 and supersede those found in the June 2002 Enterprise Fund manual and any prior written inconsistent publications or statements.

11. Appropriating for Enterprise Fund Indirect Costs from the General or other Fund

Per [IGR 08-101](#), indirect costs are generally appropriated as part of the General Fund operating budget and are allocated to the enterprise fund as reported on Schedule A-2. Do not appropriate these costs in both the General Fund operating budget and in the enterprise fund budget. Local financial officials may wish to show the public all costs of the enterprise fund, but should not duplicate their appropriation. Therefore, reporting of enterprise fund estimated receipts on page 3 of the Tax Rate Recap to offset such duplication should no longer be necessary.

12. Funds Received From National Grid

Communities that received a special check from National Grid in April of 2008 as a result of under-reported values in FY2008 must close the amount to the General Fund as of June 30, 2008 unless a request for free cash update was approved by the Director of Accounts for this non-recurrent distribution.

13. Interfund (“Internal”) Borrowing Prior To Issuance of Debt

M.G.L. Chapter 44, §20A allows for interfund borrowing prior to issuance of debt to make expenditure for purposes for which the authorized debt will be issued. Interfund advances must be repaid during the same fiscal year and there are borrowing restrictions. See [IGR 92-105](#). Debt authorized for jurisdictions under legal restriction to obtain approval from the Commissioner of Revenue must first receive local approval and then the Commissioner’s approval before interfund borrowing and expenditure of funds can occur.

Free Cash Updates

M.G.L. permit inclusion of receipts attributable to prior years, principally collection of property taxes, up to March 31, 2009. This update to the amount previously certified provides additional spending authority based on such items, but must first be certified by the Director of Accounts prior to appropriation. Only one request may be made by a city, town or regional school district per fiscal year. Please review Bulletin [2008-04B](#) regarding free cash updates and non-recurrent distributions.

Schedule A

The FY2008 Schedule A will be due October 31, 2008. M.G.L. provide for the withholding of local aid payments to cities and towns that do not submit a Schedule A to the Bureau timely.

The FY2008 Schedule A will appear in form the same as in FY2007 and will be available in early August. Please note any particular instructions in the annual Schedule A Guidelines and Reference Manual.

For FY2008, Schedule A will be available in the Gateway section of the Division of Local Services website. City Auditors and Town Accountants will be E-mailed a link to the website.

Snow and Ice

The [Snow and Ice Report](#) as required by Chapter 44, §31D must be filed with the Bureau by September 15, 2008.

General

All IGRs, Bulletins and forms referred to in this letter can be found on the DLS website at www.mass.gov/dls. These forms may be downloaded and completed on the screen or printed out and completed.

Please review the Accountants' Corner in the DLS website for interesting information and let us know how we can improve upon it. If you have any questions with regard to any item found in this letter, please do not hesitate to contact your Bureau of Accounts field representative.

Sincerely,

A handwritten signature in cursive script, reading "Gerard D. Perry".

Gerard D. Perry
Director of Accounts